



## Regular article

The relationship between federal budget amendments and local electoral power<sup>☆</sup>Sergio Firpo<sup>a,\*</sup>, Vladimir Ponczek<sup>a</sup>, Viviane Sanfelice<sup>b</sup><sup>a</sup> Sao Paulo School of Economics- FGV, Brazil<sup>b</sup> University of Rochester, USA

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## ABSTRACT

The objectives of this paper are twofold. First, we investigate whether politicians use resources from the federal budget to maintain and expand their political capital. Second, we examine whether such strategy is rewarded by voters. Do they vote for politicians who assist their municipalities through federal expenditures? We use data from legislative elections in Brazil, a country that does not use a single member district system to form its Chamber of Deputies. We use a regression discontinuity approach by exploring the results of close elections for the Chamber of Deputies. Our findings indicate that politicians tend to favor municipalities that were important to their elections and that voters support candidates who have brought resources to their localities.

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## 1. Introduction

The empirical literature has established that incumbent politicians may have certain advantages in elections. Fiscal policy has been an important channel used by incumbents to influence voters in elections for executive branch offices. However, legislators may also use public expenditures as a mechanism to canvass voters. This phenomenon has been well documented by the literature on pork-barrel politics whose focus is on district-based electoral systems. Brazil does not use a single member per district electoral system to elect members to its Chamber of Deputies, the house of Congress that most closely resembles the U.S. House of Representatives, but a party-open-list proportional representation system. Unlike single member district systems, Brazil's electoral districts are the 27 federation units and the average number of seats that are assigned to each state is around 20. Given these characteristics of the structure of the Brazilian system, the major objectives of this paper are (i) to investigate whether those incumbent deputies use fiscal policy as both a strategy to reward core voters and to expand their base support; and (ii) to determine whether this strategy is effective. So, our main contribution is to show how the use of fiscal policy affects and is affected by the local political power of deputies in a country whose

electoral system is not district based. Thus, we focus on the geographical distribution of votes received by politicians instead of examining the success or failure of candidates' reelection efforts.

Our findings show that politicians tend to favor municipalities that were important to their elections and that voters support candidates who have brought resources to their localities. Candidates are rewarded in terms of votes and become electorally important in benefited municipalities, suggesting that their political power is affected by the amendments.

The literature on the electoral impacts of government spending is vast. There is mixed evidence that increases in fiscal outlays are effective on retaining either federal or local executive positions.<sup>1</sup> Furthermore, voters may have preferences regarding the composition of expenditures but not necessarily regarding the total amount spent.<sup>2</sup> Indeed, in several countries, increases in expenditures targeted at investment and reductions in existing expenditures have been found to have positive effects.<sup>3</sup>

Although the legislative branch cannot assign infrastructure expenditures as flexibly as the executive branch can, the electoral use of resources for investment by legislators often occurs via amendments to

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<sup>1</sup> Brender and Drazen (2008) find no evidence that public deficits increase the reelection chances of executive branch members. With respect to Brazil, Sakurai and Menezes-Filho (2008) note that expenditures in election years tend to reduce the chances of reelection of incumbent mayors, whereas expenditures in non-election years appear to benefit incumbents.

<sup>2</sup> Drazen and Eslava (2010) provide a theoretical explanation and empirical evidence of the political manipulation of the budget via changes in the composition of government spending.

<sup>3</sup> See, for instance, Khemani (2004) and Peltzman (1992). For Brazil, Meneguim et al. (2005) demonstrate that in local elections voters tend to disapprove cost expenditures and support investment expenditures, which are electorally visible.

the budget. Representatives can focus on a specific group of voters and generate benefits for this group at the expense of other groups. In the literature focusing on U.S. politics, this practice is known as pork-barrel spending, a procedure whereby incumbents use government infrastructure programs to distribute resources to geographically specific groups in exchange for political support via campaign contributions or votes. Whereas the benefits of this spending accrue to specific locations, all taxpayers pay for these initiatives.

Literature on the electoral effectiveness of pork-barrel spending in the U.S. is far from unanimous. Evans (2004) provides evidence supporting both the view that incumbents increase their chances of reelection through pork-barrel,<sup>4</sup> and the view that it does not alter those chances as in, for instance, Stein and Bickers (1994). More recently, Stratmann (2013) pointed out that most of the federal resources allocated to electoral districts occur without any direct action from the legislative branch. Federal expenditure into those regions follows formulas that are set in law, making it relatively hard for legislators to take full credit of those expenses. According to him, that explains why the empirical evidence of electoral effectiveness of pork barrel is mixed. He uses new data on the sponsorship of earmarks in U.S. appropriations legislation to show that incumbent representatives obtain higher vote shares in the electoral district when pork barrel is clearly associated with them.

In electoral structures like the American there is a direct connection between a politician and a given region, as each location elects its own representative. However, such connection is not well documented in countries where electoral districts have large geographical dimensions within which various parties and candidates compete for multiple seats within multimember districts.<sup>5</sup> The Brazilian example provides an opportunity to investigate the effectiveness of pork barrel politics in a different institutional setting from the U.S., since Brazil uses a party-open-list proportional representation system for congressional elections.<sup>6</sup>

Nevertheless, as shown by Ames (1995a,b) in his analysis of the Brazilian system, informal electoral districts may exist within larger formal districts, the so-called “bailiwick phenomenon”. In these more concentrated environments, politicians can focus their pork barrel efforts and eventually be rewarded by the support of voters. According to Latner and McGann (2005), parties and candidates are influenced by two major considerations when seeking regional representation in multiple representative districts. It might be advantageous for a party to have candidates running for election in different regions, as this maximizes the total number of votes won by the party. Moreover, internal party competition can stimulate the regionalization of candidates, preventing two candidates that represent the same party from competing for the same voters. In fact, Myerson's (1993) theoretical result for electoral systems like the Brazilian one suggests that candidates from the same party will concentrate efforts on a small minority of the voters who support the party. His theoretical predictions are indeed consistent with the Ames' findings for the Brazilian legislative elections.

In Brazilian congressional elections vote is compulsory. Voters cast single ballots either for party labels or individual candidates and parties can form election coalitions. The number of votes that candidates receive determines their ranking in a party coalition list. The D'Hondt method is used to determine the number of seats each coalition obtains. Brazil's electoral districts correspond to its 27 states and each are allocated a number of seats based on their population. Once elected, amendments to the federal budget are the key tool that representatives use to channel resources to areas where they have vested electoral

interests. These amendments are made to the Draft Budget Law (*Projeto de Lei Orçamentária*, henceforth referred to as PLO) drawn up by the executive branch.

Some studies have attempted to determine the relationship between amendments and future electoral performance in Brazil.<sup>7</sup> The evidence shows no clear connection between amendments and increases in the probability of a deputy's reelection. These studies, with the exception of Ames (1995a,b), use aggregate data at the electoral district level, that is, at the state level. Hence, these studies are unable to assess outcomes for candidates within electoral districts. Therefore, the potential effect of amendments on the construction and consolidation of local electoral power has been overlooked. Consequently, since Ames (1995b), whose seminal work used data on budgetary amendments for 1989–91 period and electoral results in 1986 and 1990, there has been no update on the evidence of a relationship between regionally assigned funds and local political returns for federal deputies. More importantly, no attempts to quantify the relevance of amendments to local power have been provided in the literature and Ames (1995b) is no exception.<sup>8</sup> Standards for credible empirical evidence on the establishment of causal links have also changed over the past twenty years. Moreover, new and more data are available. This topic is therefore worth revising.

We use local electoral results to study the causes and consequences of the actions of federal deputies. To investigate this process we explore the relationship between amendments to the federal budget that are directed to specific municipalities and the local electoral outcomes of candidates running for the Brazilian Chamber of Deputies. This study focuses on the 50th, 51st, 52nd and 53rd legislative sessions of Congress and five elections for the Chamber of Deputies (1994, 1998, 2002, 2006 and 2010).<sup>9</sup>

The paper analyzes two questions in detail. The first addresses whether politicians tend to “bring home the bacon”. We show that municipalities that are able to elect candidates who are “associate” with their voters receive an increased share of the federal budget.<sup>10</sup> This dynamics occurs because deputies tend to allocate resources to localities that have provided them with electoral support in previous elections. We exploit a discontinuity in the election rule for Congress, one that guarantees exogenous variation in the number of elected deputies linked to (or associate with) given municipalities. We use a Regression Discontinuity Design (RDD) to exploit the fact that there is a discontinuity in the probability of a municipality having an associate candidate in the Chamber of Deputies. This allows us to overcome the concern that the unobservable characteristics of candidates and municipalities might be systematically related to both electoral performance and the capabilities of candidates to propose amendments.

The second question assessed in this paper is whether voters support incumbent candidates who have proposed the amendments applied to their regions. Employing longitudinal data to control for fixed, unobserved characteristics of candidates and municipalities, we find that deputies who “bring home the bacon” are electorally rewarded in the municipalities that benefit from the candidates' actions. We do observe a positive impact of pork on a candidate's number of votes and on their political relevance within benefited municipalities (measured as the probability of becoming associate with those municipalities).

Our findings indicate that politicians tend to favor municipalities that were important to their elections. However, the literature using aggregate data found that the strategy of allocating resources to some

<sup>4</sup> The literature on pork-barrel spending, which began with Mayhew (1974), is quite extensive. A list of notable contributions providing evidence of electoral effect of pork ranges from early papers by Weingast (1979) and Shepsle and Weingast (1981) to more recent ones, such as Alvarez and Schousen (1993) and Levitt and Snyder (1997).

<sup>5</sup> See Golden and Picci (2008) and Stratmann and Baur (2002) for pork barrel in the context of proportional representation in Italy and Germany, respectively.

<sup>6</sup> Several countries use open-list proportional representation: Colombia, Indonesia, Japan and Netherlands are some of them.

<sup>7</sup> Some examples include Ames (1995a,b), Samuels (2002), Pereira and Renno (2003) and Mesquita (2008).

<sup>8</sup> Ames (1995b) presented regression tables only with ‘+’ and ‘-’ signs, indicating respectively a partial positive and negative correlation between the dependent variable and the regressors. No point estimate is reported.

<sup>9</sup> The 50th, 51st, 52nd and 53rd legislative sessions correspond to the years 1995–98, 1999–2002, 2003–06 and 2007–10, respectively.

<sup>10</sup> In the following sections, we provide a precise definition of the association between candidates and municipalities.

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